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UNCLAS SECTION 01 OF 03 ASTANA 000198

SENSITIVE
SIPDIS

STATE FOR SCA/CEN, EEB
STATE PLEASE PASS TO USTDA (DAN STEIN) AND USTR

E.O. 12958: N/A

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SUBJECT: KAZAKHSTAN: PRIME MINISTER MASIMOV REQUESTS CLEAR MESSAGE
THAT KAZAKHSTAN IS WELCOME IN THE WTO

¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: Prime Minister Karim Masimov told the Ambassador on February 3 that he needs a clear message from the United States that Kazakhstan is welcome in the WTO in order to "slow down" the Russian-Belarus-Kazakhstan customs union and move forward first with Kazakhstan's WTO accession. Masimov also:

-- explained that the government's acquisition of majority stakes in two banks is a temporary measure and said they will ultimately be re-privatized;

-- revealed the government has a "confidential plan" to devalue the tenge;

-- reiterated his advice that international energy companies should have parliament ratify their contracts so that there is legal certitude the contracts are not affected by new legislation, including the new tax code;

-- expressed doubts about the feasibility of a trans-Caspian gas pipeline;

-- indicated that the government might consider increasing the quota for work permits for expatriates in 2010;

-- said he had ordered Deputy Prime Minister Yerbol Orynbayev to move forward on the Public-Private Economic Partnership Initiative (PPEPI); and

-- promised that he would visit Afghanistan sometime during 2009.
END SUMMARY.

NEED CLEAR MESSAGE ON WTO ACCESSION

¶3. (SBU) During a February 3 meeting with the Ambassador, Prime Minister Karim Masimov admitted that the proposed Russia-Belarus-Kazakhstan customs union could have a strong impact on Kazakhstan's WTO accession. (NOTE: As far as we understand, the necessary documents to form the customs union are to be finalized at the beginning of April. END NOTE.) Masimov said that originally,

Russia and Kazakhstan had agreed that they would form the customs union only after both entered the WTO. However, a current option is to form the customs union first, then have the customs union negotiate WTO accession. This second option is not Kazakhstan's preference, Masimov explained. However, to "slow down" the customs union and focus first on its own WTO accession, Kazakhstan needs a clear message from the United States, as well as from the EU, that it is welcome in the WTO -- something akin to the strong signal the United States gave to Ukraine. Kazakhstan has not yet gotten such a message, he argued. The message need not be a public one; rather, a private message will suffice. Masimov noted that he is in frequent contact with Special Representative Richard Holbrooke, and said a message directly from Holbrooke to him by phone call would be sufficient. The Ambassador promised to relay Masimov's request to Washington. (COMMENT: This should be seen as a question of sovereignty for Kazakhstan. Masimov seemed thoroughly sincere that an authoritative call from the United States would be sufficient for him to put the brakes on the customs union locomotive speeding out of Moscow. END COMMENT.)

BANK TAKEOVER JUST TEMPORARY MEASURE

14. (SBU) Referring to the government's February 2 acquisition of majority stakes in two major banks, BTA and Alliance, Masimov explained that this is only a temporary measure, and that eventually the government will move to re-privatize them. He pointed out that economist Paul Krugman had essentially advised President Obama to take similar steps with U.S. banks. Masimov noted that JP Morgan and Credit Suisse are advising the Kazakhstani government on bank restructuring issues. He added that former National Bank Chairman Anvar Saidenov may be named CEO of BTA Bank. On the issue of currency devaluation, Masimov said that the government has a plan to

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devalue the tenge, but it is confidential and thus he could not divulge dates or any other details.

ADVICE TO COMPANIES TO RATIFY CONTRACTS

15. (SBU) The Ambassador reminded Masimov that when Secretary Rice visited Astana on October 5, he had told her that international energy companies should have their contracts ratified by parliament. The Ambassador asked whether this remains Masimov's view. Masimov explained that he has strongly advised the CEOs of the companies to get their contracts ratified within the next several years, though has not insisted that they do so. The choice is theirs. Ratification, however, is the means to provide legal certitude that the contracts are not affected by new legislation, including the new tax code. Failure to ratify could ultimately lead to problems, including court rulings that undermine the legality of the contracts. Masimov explained that he does not see this as an immediate issue, but one that could materialize within five or ten years. He believes ratification should be done by 2012, before the next parliamentary elections, "after which, I can't guarantee you anything." The Ambassador explained that the companies are concerned that parliament might try to change the terms of the contracts during the ratification process. The companies also worry that propriety information and politically embarrassing contract details could be publicly released through ratification. Masimov responded that a deal can be made in advance to ensure parliament does not try to change the contracts. Regarding proprietary and embarrassing information, within several years, there will be demands made for release of all contract details in any event.

DOUBTS ABOUT TRANS-CASPIAN GAS PIPELINE

16. (SBU) Discussing progress on the Kazakhstan-Caspian Transportation System (KCTS) for oil, Masimov maintained that the political decisions had all been made. Now it is just a matter of finalizing the commercial details. He noted that the Georgian conflict had temporality slowed down discussions on building a second Baku-Tbilisi-Ceyhan (BTC) pipeline, but expected that there will be a renewed focus on the issue. Masimov expressed doubts about the feasibility of a trans-Caspian gas pipeline to transport Turkmen gas to Azerbaijan. He argued that LNG or CNG would be easier to do, and claimed that some private companies are interested

in these options.

MAY REVISIT WORK PERMITS ISSUE IN 2010

17. (SBU) The Ambassador told Masimov that some of the international companies are concerned about Kazakhstan's stringent limit on work permits for expatriate personnel. Masimov responded that this is an issue that the government might revisit in 2010. However, for 2009, the quota has to remain limited because of political optics during the current economic crisis. The government has to show the population that it is doing all it can to provide jobs for Kazakhstanis.

MOVING FORWARD ON PPEPI

18. (SBU) The Ambassador explained to Masimov that we hope to move forward on the Public-Private Economic Partnership Initiative (PPEPI), and that he and AmCham are seeking a meeting to discuss next steps with Deputy Prime Minister Yerbol Orynbayev. Masimov said that Ornybayev should be available for such a meeting, stressing that he had given him clear instructions to proceed with PPEPI.

WILL RESCHEDULE VISIT TO KABUL

19. (SBU) The Ambassador noted that Masimov had to cancel his planned October 2008 trip to Kabul and asked whether he intended to reschedule it. Masimov explained that the cancellation resulted from his need to remain in Kazakhstan to deal with the effects of the global financial crisis. He assured the Ambassador that he would visit Afghanistan before the end of 2009, through no specific

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date has yet been set. He also said that Kazakhstan would continue its assistance program for Afghanistan, but was uncertain how much money would be allocated for 2009. He noted that despite Kazakhstan's difficult budget situation, the government has allocated \$12 million to provide Tajikistan with fuel and grain.

HOAGLAND